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May 22, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street NW
Washington, DC 20554

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MAY 22 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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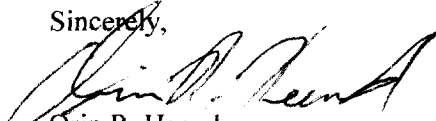
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Dear Ms. Salas:

Attached please find an original and five copies of comments filed by Funds For Learning, LLC, in response to "Proposed Revision of Maximum Collection Amounts for Schools and Libraries and Rural Health Care Providers, Public Notice, CC Docket No. 96-45, DA 98-872. We are also submitting an exact copy of these formal comments via the Internet.

Sincerely,


Orin R. Heend
President

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**Before the
Federal Communications Commission
Washington, D.C. 20554**

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MAY 22 1998

**FEDERAL COMMUNICATIONS COMMISSION
DEPT. OF THE INTERIOR**

In the Matter of)	
)	
Proposed Revision of Maximum Collection Amounts)	CC Docket No. 96-45
for Schools and Libraries and Rural Health Care)	
Providers, Public Notice DA 98-872)	

COMMENTS OF FUNDS FOR LEARNING, LLC

Funds For Learning, LLC, hereby submits these comments in response to the Public Notice in the above-captioned proceeding, "Proposed Revision of Maximum Collection Amounts for Schools and Libraries and Rural Health Care Providers, Public Notice DA 98-872," which was released on May 13, 1998.

Funds For Learning, LLC, is a Washington, D.C.-based consulting firm that has helped schools and libraries understand the universal service program and guided them through the application process. Our clients include some of the nation's largest school districts as well as some very small ones, districts that are technologically advanced and those that are not, private schools and public schools, urban and rural.

Initially, all of our clients shared a sense of excitement over the opportunity that the E-rate represented. They were eagerly anticipating the chance to make dramatic improvements to their communications infrastructure, to bring their facilities into the 21st century, and to equip their students for future technological challenges and provide even the most distant and underprivileged schools and libraries with easy access to the riches of the Internet.

Recently, however, that excitement has been replaced by a sense of frustration and cynicism, fueled in large part by conflicting signals over the amount of funding that the Federal Communications Commission intends to make available.

What the E-rate program needs is consistency and predictability. Since May 1997, when the commission issued its *First Report and Order* laying the foundation for the Universal Service Program, schools and libraries have devoted extraordinary amounts of time and energy trying to master the complicated rules of the E-rate program and complete technology plans and the many other requirements to qualify for funding. At the same time, they modified or delayed their installation schedules to take advantage of Universal Service support and thus maximize the dollars they would have available to support technology. Now these applicants face further frustration if the commission implements its proposal to reduce the amount that will be collected for the fund by more than 25 percent, even though applicants have already demonstrated that the demand for funding could likely exceed the cap this year.

Revising the Support Mechanism

When the commission first voted to set the fund's 1998 cap at \$2.25 billion, it based the figure on its best estimates of what the likely level of demand would be from schools and libraries, not on what long distance companies said they would be able to contribute without raising their rates. If the FCC had not scaled back its rate of collections for the fund late last year¹, saying that the money was not needed in the first half of the year, the money would be available now. Schools and libraries, in good faith, have sought reimbursement for expenses they incurred in the first half of the year, only to be told now that the money may not be available.

The FCC has had more than a year in which to readjust the 1998 figure², but has waited until the 11th hour, when schools are poised, right before summer vacations, to begin infrastructure improvements. Now these projects may suddenly have to be scaled back or postponed because of the commission's change of heart.

The end result is that the commission will have unintentionally caused the delay of major technology improvements in schools for up to two years: first, in 1997, when schools delayed signing contracts to be able to take advantage of the program and now, when some plans and purchases will have to be delayed if they cannot be funded at the full amount for which

¹ See *Third Order on Reconsideration*, Dec. 16, 1997.

² In its *Report and Order* (May 8, 1997), the FCC accepted the \$2.25 billion cap that had been recommended by the Federal-State Joint Board on Universal Service.

applicants thought they were qualified. Rare is the school that has access to the discretionary dollars that would let it shift around funds to cover these kinds of costs.

The rapid and repeated changes in the program have also had a negative impact on the vendor community. While the educational market is a potentially lucrative one, it has been hard for service providers and other vendors, particularly small companies, to constantly adjust their business and marketing strategies to keep them in line with the program. Already, these companies must accept delays in getting paid and additional bureaucratic requirements to participate in the program. Coupled with late-hour cutbacks in the fund, and the potential loss of business they thought they had already won, many will undoubtedly conclude that the program is more trouble than it is worth. The result: less competition rather than the heightened competition that the commission and Congress had hoped to promote.

Support for Internal Connections

We also believe that suggestions from some quarters³ that the fund should not be used to support internal connections are short-sighted. If schools and libraries can build networks now, they will be able to purchase telecommunications services much more cost-effectively in the future. The percentage of the E-rate fund that supports internal connections can be expected to decline substantially over time. Once a school installs a network, more of its costs will shift to advanced telecommunications services supporting Internet access and distance learning applications. The telecommunications companies will eventually reap the benefit of these connections in the form of increased business in the future.

Those who advocate excluding internal connections from support now seem to long for the days when a "wired" classroom meant a phone line running to a single computer, an out-dated and highly inefficient way of connecting students to online learning resources.

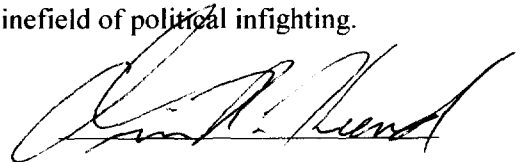
Formulas for Allocating the Funds

On the issue of how to ensure that the neediest schools are best served, the commission's original "trigger" approach seemed reasonable, although the commission probably should have been made a determination in advance of the filing window to specify what would happen if the trigger figure were reached. We recommend that if the commission establishes a filing window

³ See *Statement of Commissioner Harold Furchtgott-Roth* on the commission's filing, May 13, 1998.

for the 1999 calendar year that these circumstances be anticipated before the filing period begins, rather than waiting until all the applications are in.

In summary, we urge the commission to allow the E-rate program to get up to running speed by adopting policies and then sticking to them. If not, the program will be remembered, not as the "G.I. bill of educational technology" but rather as a minefield of political infighting.

A handwritten signature in black ink, appearing to read "Orin R. Heend", written over a horizontal line.

Orin R. Heend

President

Funds For Learning, LLC